Slovakia

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IN A NUTSHELL

→ The real GDP growth increased along with private consumption.

→ The real estate market is robust and house prices have surged.

→ Covered bonds are a favourable market tool for mortgage loan financing.

MACROECONOMIC OVERVIEW

Slovakian real GDP growth increased at 3.4% in 2017 compared to 3.3% in 2016 and it is expected to reach 4% in 2019. On an annual basis, investment rate decreased to 2.7% in 2017 from 9.3% in 2016. Hinders of investment are the slow absorption of EU investment funds and delays in infrastructure projects because of litigation.

Unemployment rate for Slovakia in 2017 was 8.1%, but it is expected to fall below 7% in 2019. Annual average growth in industrial output fell from 6% in July to 4.5% in August due to a contraction in the mining, quarrying and manufacturing sector. Low unemployment rates and waste growth contributed to the increase of consumer spending from 2.6% in 2016 to 3.7% in 2017.

The strongest increases in prices were recorded for food, alcoholic and non-alcoholic beverages, tobacco and transport. Lower prices were recorded in communications and education. Annual inflation rate stood at 1.4% in June 2017, up from -0.5% in the same period last year. Core inflation rate stood at 2.8% in Q4, while consumer price index reached 1.8% in December 2017.

In April 2017 Slovakia's public deficit rate reached a mere 1.04% of GDP, which was well below the Finance Ministry's projected goal of 1.29% of GDP. It was the lowest deficit ever, but also the first primary surplus, as the Ministry of Finance reported. This positive development is due to a combination of collection of levies and the positive situation on the labour market.

HOUSING AND MORTGAGE MARKETS

HOUSING MARKET

Slovakia is the country with the third highest homeownership rate in the EU. With 90.3% of the population owing houses, Slovakia exceeds by far the EU average (<70%).

In Bratislava region, which has the country's most expensive housing, residential property prices rose by 6.7% y-o-y to EUR 1,904 (USD 2,283) per sq. m. during the year to Q2 2017, up from y-o-y rises of 6.3% a year earlier and 2.6% in Q2 2015.

- **Trencin** experienced the biggest rise of about 15.9% y-o-y to EUR 744 (USD 892) per sq. m.
- In **Nitra** house prices surged 15% y-o-y to EUR 668 (USD 801) per sq. m.
- In **Presov** house prices rose by 10.3% y-o-y to EUR 838 (USD 1,005) per sq. m.

The strong economic growth positively affected the real estate market. House prices have surged but so has growth in lending. Household indebtedness in Slovakia is now one of the highest in central and eastern Europe. In early July the Central Bank decided to increase banks' countercyclical capital buffers and tighten mortgage regulations. The measure will come into force in August 2019 and aims to squeeze credit supply and cool the real estate market.

MORTGAGE MARKET

According to the National Bank of Slovakia (NBS), the total outstanding amount of housing loans to households rose by 14.2% to almost EUR24 bn (USD 28.7 bn) from the same period last year. The minimum loan period is usually four years and the maximum is up to 30 years. The maximum loan amount is now 85% of the valuation or the purchase price.

In 2010 interest rates on loans ranged between 3 and 7%. However, due to the Act on Housing Credits – in effect since March 2016 – banks could impose on clients a statutory cap on fees for moving their mortgage loans between them, i.e. early repayment of a mortgage loan through refinancing by another bank. The market reacted by vigorous competition leading to a steep drop in interest rates. As a result, mortgage loan interest rates are currently at historic lows.

Asset quality remains strong with non-performing loans at 4.6%. The authorities are encouraged to impose higher risk weights on mortgage loans with LTV ratios over 80% or on mortgage loans for investment properties.

MORTGAGE FUNDING

Deposits are for the banks one main source and for the Bausparkassen the only source of funding for their mortgage market activities. Short-term deposits and current checking accounts continue to offer a stable, low cost source of funding for the banks and Bausparkassen. Banks also fund the lending activities through issuance of Covered Bonds. Currently a modest EUR 4.2 bn in size and just 0.2% of the total outstanding mortgage covered bond volume in Europe, Slovakia's covered bond market is growing by around 10% a year. Covered bonds are an attractive funding tool for Slovak banks, because they are typically cheaper for banks than senior unsecured bonds on average in Europe. This is because they are asset-backed and are perceived as lower risk by investors. The current legal reform will make covered bonds even more attractive funding tool for banks.

	SLOVAKIA 2016	SLOVAKIA 2017	EU 28 2017
Real GDP growth (%) (1)	3.3	3.4	2.4
Unemployment Rate (LSF), annual average (%) (1)	9.7	8.1	7.6
HICP inflation (%) (1)	-0.5	1.4	1.7
Outstanding Residential Loans (mn EUR) (2)	22,508	25,383	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	5,085	5,726	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	46.6	51.0	73.8*
Gross residential lending, annual growth (%) (2)	55.1	-18.3	3.5
Typical mortgage rate, annual average (%) (2)	2.0	1.7	2.4**
Owner occupation rate (%) (1)	89.5	90.3	66.4*
Nominal house price growth (%) (2)	4.2	6.4	6.0

* The aggregate EU figure is from 2016.
** Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

SLOVAKIA FACT TABLE

Entities which can issue mortgage loans:	Housing finance is raised from (mortgage) banks, Bausparkassen and the State funds.
The market share of the mortgage issuances:	Not available
Proportion of outstanding mortgage loans of the mortgage issuances:	Banks had a market share of 47%, Bausparkassen of 42% and the state funds of 11%.
Typical LTV ratio on residential mortgage loans:	The typical loan to value (LTV) ratio is 70%, but a maximum LTV ratio of 85% is possible.
Any distinction made between residential and non-residential loans:	Not available
Most common mortgage product(s):	Most mortgage loans taken out are loans with a variable rate or with short-term fixed rates.
Typical maturity of a mortgage:	Mortgage loans have maturity of at least 4 years and maximum of 30 years.
Most common way to fund mortgage lending:	Deposits are for the banks one main source and for the Bausparkassen the only source of funding for their mortgage market activities. Banks also fund their lending activities through issuance of Covered Bonds. The current legal reform will make covered bonds even more attractive funding tool for banks.
Level of costs associated with a house purchase:	The round trip transaction costs include all costs of buying and then re-selling a property - lawyers' fees (1% of the property value), notaries' fees (0.01-0.50% (+20% VAT), registration fees, taxes, agents' fees (3% - 6%).
The level (if any) of government subsidies for house purchases:	Subsidies cover up to 30% of construction costs, excluding land price, and soft loans have an annual interest rate of 1% with a repayment period of up to 30 years and with maximum 80% LTV.